

## Democracy, Market Economy, and the Political Management of Transformation in 119 Countries: The Findings of the Bertelsmann Transformation Index 2006

### *An Introduction to the Special Issue*

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### Introduction

This special issue of *Strategic Insights* presents the findings of the *Bertelsmann Transformation Index 2006*. The BTI is the global ranking of quality in democracy, a market economy and political leadership in developing and transformation countries. Increasingly, international organizations, media and governments use this instrument of measurement to access information on the status of democracy, the market economy, and the quality of reform policies throughout the world. The BTI is the institutional effort by the Germany-based *Bertelsmann Foundation* to examine the political management of change on the way to a market-based democracy in 119 countries in seven regions:

- Asia and Oceania;
- Central and West Africa;
- East and South Africa;
- East Central and Southeast Europe;
- CIS and Mongolia;
- Latin America and the Caribbean;
- Middle East and North Africa.

The BTI is published every two years by the *Bertelsmann Foundation* in German and English. It began in 2004, when the BTI 2003 was published, reviewing the period 1998-2003.<sup>[1]</sup> The index provides two rankings and two trend indicators, which present the results of the comparative analysis and rating of 119 countries in a consolidated and concise form. The *Status Index* shows the state of development that a country had achieved on the way to democracy and a market economy by spring 2005. The *Management Index* classifies the quality of transformation management in the countries examined between 2003 and 2005. The *trend indicators* provide information on the direction of development in terms of democracy and a market economy in each of the countries examined from 2001 to 2005.

The countries selected for assessment are independent states with populations exceeding three million, which had not yet become fully consolidated democracies with market economies at the beginning of the period of the study. The assessment also included some states which – despite not meeting the population criterion – were still of interest to the BTI on account of their specific transformation features (for example, Mongolia, Bahrain, and Mauritius).

Qualitative assessments by experts provide the basis for the BTI. Relying on 58 separate questions, experts on the country in question have, for each of the 119 countries, examined in detail to what extent the total of 19 criteria of the BTI have been met. All country analyses include a narrative report and numerical ratings. Each report was reviewed independently by a second country expert, generally from the country concerned. Following that, two regional experts discussed the individual scores and, in each case, agreed on a rating that took account of the differences between the countries within one region of the world. Finally, the BTI Board reviewed the regionally adjusted scores, coordinated them within a global comparison and reached a consensus on the final ratings.

The contributions to this special issue fall into three categories: the first article on *The Bertelsmann Transformation Index 2006* describes the aim, approach, and methodology of the BTI. Furthermore, it provides a concise overview of the main findings of the BTI 2006 along three research questions: what is the status of transformation toward democracy in the 119 countries reviewed? What are the major trends of market-economic transformation? How have political elites and decision-makers managed these transformations?

In the second part, this issue collects seven regional chapters, describing and analyzing the management of political and economic transformation in Asia, Central and West Africa, East and South Africa, Latin America, Eastern Europe, the CIS, and the Middle East and North Africa. Each report provides an overview on the state, trajectory, and management of the transformation processes in these regions. The aim of those chapters is to provide academics, students, policy-makers and journalists with a brief and concise overview of the regional patterns, trends, and achievements of democratization and economic development. It is based on the results of the BTI 2006 survey and the underlying country assessments which analyze each individual country in detail. While the chapters presented here do not provide additional information or references that go beyond the information provided in the 119 country reports, these reports are available [online](#) in English and German and may be used by for additional information and in-depth analysis of every 119 countries.

The regional overview on fifteen countries in East-Central and Southeast Europe by [Martin Brusis](#) points to the positive impact of the prospect of accession to the European Union on the direction and management of political and economic change in the post-Communist countries in this region. Of the fifteen states in the region, eleven may be classified as consolidated or almost consolidated liberal democracies. The level of market economy in this region largely corresponds to the level of democratic development. While the new member states of the EU are developed market economies, the institutional framework of market economy in Bulgaria, Croatia, Latvia and Romania is weaker; Albania, Bosnia, Macedonia and Serbia are the tailights of economic transformation in the region, in terms of their economic performance and socioeconomic level of development and institutional reforms. Overall, East-Central and Southeast Europe demonstrated that a high quality of reform management is the key for successful transformation toward a market-based democracy.

The trends of democratic and economic transformation in other regions support this finding, as the report on the Commonwealth of Independent States (CIS) plus Mongolia illustrates. The findings of the BTI 2006 in this region, summarized by [Sabine Donner](#) and [Bernd Kuzmits](#), clearly demonstrate that the different area countries are drifting further apart in terms of the quality of democracy and the status of market-economic reforms. Prospects for deepening of democratization in Georgia and the Ukraine are in sharp contrast to the erosion democratic

standards in Russia and the stubborn attempts of authoritarian rulers in Central Asia to preserve their neo-patrimonial regimes. Particularly in resource-rich countries in Central Asia, there is a dramatic gap between the economic potential for development and the actual development levels which must be attributed to the poor political management of the decision-makers in these countries. On the other hand, the positive example of landlocked Mongolia, a country sandwiched between the two regional superpowers China and Russia, and seriously constrained in its potential for economic development by resource scarcity, small population and the legacies of almost seven decades of Soviet-style communism, demonstrates that success or failure of democratic and economic transformation is not simply a consequence of favorable or unfavorable environmental conditions but also of the quality of political management.

The insights on transformation in the Middle East and North Africa, provided by [Felix Neugart](#), support major conclusions from previous chapters. On the one hand, the BTI 2006 proves that in spite of deepening public debates in many area countries, political and economic reforms in the 16 countries in the region are still very limited. Although mounting domestic problems combined with the changed international environment have convinced many leaders in the region that reforms are inevitable, political liberalization remains carefully controlled, the goal being the reconstruction of the authoritarian system rather than their transformation. On the other hand, Turkey remains the only success story of the region with its present reform course heavily influenced by the EU accession perspective.

The Africa section of this issue deals with political and economic transformation in two sub-regions: Central and West Africa and East and South Africa. [Siegmar Schmidt's](#) report on East and South Africa demonstrates the heterogeneous developments with respect to transformation to market economy and democracy in this region; however, by and large, in southern Africa the differences between the countries under review are larger than in Eastern Africa. [Matthias Basedau's](#) contribution on West and Central Africa shows that political and economic transformation in this region has gained little ground during the review period of the BTI 2006. However, the positive news is that while Central and West Africa used to be the major conflict-zone around the globe in 2001, at least there have also been few major crises in democratic and economic development during the past three years. The basic problem of transformation in this region is the uncertain sustainability of already established standards and the fact that keeping the achievements will continue to require international assistance.

Moving to Latin America and the Caribbean, [Peter Thiery](#) delineates the divergent trends of stabilization of transformation gains versus neo-populism on the continent. Two decades after the end of military rule on the continent, the gulf between the politically and economically stable Cono Sur and the Andean crisis belt is widening. Major problems of transformation in the region have deepened in recent years. Insufficient economic reforms, dramatic social inequality, the lack of stable democratic institutions, coupled with the massive social demands articulated and the attractiveness of populism constitutes a potential threat for political and economic stability in the region. Furthermore, problems of market economic and democratic reforms are exacerbated by the fact that reforms must be implemented either in cooperation with powerful vested interest groups and veto players with the capacity to veto significant changes of the current political or economic status quo; or which are persuade against the resistance of new social movements which have emerged in opposition to further economic reforms.

Next, the contribution provided by [Aurel Croissant](#) on the development of democracy and market economy in Asia and Oceania underlines the decoupling of market economic reforms and political reforms in large parts of the region. Croissant's chapter demonstrates that there is much heterogeneity and a-synchronicity among the various transitions to a market-based democracy in Asia. While examples of successful democratization and sustainable economic development such as South Korea and Taiwan proves that the popular "Asian values" thesis is empirically wrong, the experiences of China, Vietnam, Singapore, and Malaysia demonstrate that it is also quite possible to link positive management of economic transformation temporarily with autocratic

practices. From the normative perspective of democratic liberalism, the high capacity for economic management in authoritarian regimes is Janus-faced, as this capacity strengthens the ruling elites' claims to legitimacy; this is particularly true for the modernizing authoritarian regimes in Vietnam and China. The ruling party elites in both countries have learned from mistakes and setbacks in the past. Certainly, the flexibility shown in the policy-making is limited by ideology (democratization) as well as by the economic self-interest of the ruling nomenclatures (economic transformation). Once again, the comparison between viable democracies and functioning market economies in South Korea and Taiwan with weak or "defective" democracies such as the Philippines, modernizing autocracies in China and Singapore, and persistent bad-performers, such as North Korea and Myanmar, points to the conclusion that political management matters.

In the third part of this issue, two articles deal with specific aspects of democratic and economic transformation. In an attempt to explore the options for institutional reform in "defective democracies," [Martin Brusis](#) and [Peter Thiery](#) address the important question of how electoral reforms, the organization of public administrations and the system of government impact on the prospects of establishing viable and effective democracies. On the basis of data produced by the BTI, their empirical inquiry into the difficulties of institutionalizing liberal democracy in many transitional regimes demonstrate that the key deficiencies exist both on the input and output side of the political system, undermining its input legitimacy as well as its output legitimacy. While the weakness of representation structures linking society with the political system vitiates the input legitimacy of new democracies, the weakness of state administration, harms the output legitimacy of democracies. Unaccountability, the third major, empirically observable defect of democracy, affects both sources of democratic legitimacy since it weakens the power of public interest institutions to hold officials accountable and enables public officeholders to abuse their position. The crux with institutional reforms is that certain reforms address individual problem separately, some choices may also limit or thwart the impact of other reforms. Furthermore, the scope of institutional engineering is restricted by socioeconomic conditions, societal structure, cultural predispositions and international constellations and the embedding of formal (constitutional) institutions into informal political and social practices which also regulate behavior and shape expectations.

The last contribution by [Aurel Croissant](#) synthesizes the findings of the BTI 2006 concerning political violence and extremism in the 119 countries reviewed and the relationship between democratization and development and political violence. His analysis reveals two areas of deepening political violence since 2001 (Asia and North Africa and Middle East) and one zone of decreasing levels of conflict (East-Central and Southeast Europe). Croissant's analysis shows that the frequency of autonomy and separatist conflicts has declined in recent years; simultaneously, the number of conflicts in which political extremists aim to create a religiously legitimized political order and conflicts in which ethno-nationalist, economic and power-related interests are strongly mixed is on the rise. Furthermore, the analysis demonstrates that a core group of ten states can be singled out as the world's core countries of terrorist extremism.

Concerning the relationship between political extremism, armed conflict and transformation, Croissant's analysis challenges the idea that democratization will bring an end to political extremism and internal violent conflict. Rather, the findings of the BTI 2006 support the assumption that moderate autocracies *and* defective democracies account for 98 of the 145 conflicts in the 119 BTI countries are particularly prone for intrastate armed conflict. The general argument concerning the higher vulnerability of transitional regimes and polities on an intermediate level of democracy to some extent holds true with reference to terrorism: defective democracies by far are the most terrorism-prone in the world.

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